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# NATURAL MONOPOLIES AND THE WORKINGMAN.

## A PROGRAMME OF SOCIAL REFORM.

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THERE are various undertakings which are monopolies by virtue of their own inherent properties. Recent discussions have made these businesses well known. They are railways, telegraphs, telephones, canals, irrigation works, harbors, gasworks, street-car lines, and the like. Experience and deductive argument alike show that in businesses of this kind there can be no competition, and that all appearances which resemble competition are simply temporary and illusory.

It will be observed that these undertakings are nearly all of them comparatively new. They are an industrial field which has recently been opened. They are a non-competitive class of industries super-imposed upon the world of competitive industries, viz., agriculture, manufactures, and commerce. They have nearly all come into existence in the present century, and their growth has been so marvellous that they now represent a large proportion of all the wealth of the civilized world. It has even been claimed that railways alone in the United States comprise one-fifth of the entire wealth of the country. This is doubtless an exaggerated estimate, but it is probably an under-estimate to claim that all these businesses represent one-fourth part of the entire wealth of our industrial civilization. Moreover, their nature is such that every other kind of business is either directly or indirectly dependent upon them. Their significance becomes at once manifest. The manner in which they are managed must affect very materially the entire population, and in particular the wage-earner.

The policy which in the United States has heretofore been pursued with respect to these businesses has been to turn them over to private corporations and to encourage attempts at competition. There are exceptions which prove the rule. The post-office has from the start been a government undertaking, and, in the East, water-works have generally belonged to cities. A few cities have owned gasworks, and there may be some two hundred cities in the United States owning electric-lighting plants.

The results of the policy are now clearly manifest. First, we observe vast waste. As these businesses are non-competitive, every attempt to force competition upon them means a waste of a great amount of labor and capital. One railway manager claims that if the railways of the country were operated as a unit, the saving would be \$200,000,000 per annum. This may be an exaggerated estimate, but the waste is enormous; and when we begin to estimate what it has been in the past in railways alone in the United States, we at once run up into the hundreds of millions. Every one of the businesses named has its enormous waste to show. A single city like Baltimore has easily wasted \$10,000,000 in attempted competition in the gas business. The telegraph business in this country and in England furnishes a good illustration of waste through false policy.

A second result of the policy advocated, which now appears plainly, is the enormous and unprecedented inequality in fortunes in the United States. A large proportion of our mammoth fortunes can be traced to this false policy. Had the post-office been private property, we would have had a still larger number of multi-millionaires who would have absorbed a large proportion of the benefits of improvement in that business, the advantages of which have, through public management, accrued to the people at large. Wherever railways have been from the beginning public property, we notice the absence of the so-called "railway magnate." Political sages, like Aristotle, have in all ages told us that excessive inequality of fortune is a social danger, and especially so in a republic.

A third result of the policy mentioned is a growth of artificial monopolies. Businesses which are not in themselves natural monopolies, have, through favoritism shown by railways and other natural monopolies, themselves become monopolies. Perhaps no better illustration on a small scale could be offered than that which

may be seen in Chicago in the transportation of baggage and passengers from one railway station to another. It costs now fifty cents to ride from one railway station to another in the only omnibus line whose agents have access to passengers ; whereas, if the business were not an artificial monopoly, omnibuses would take passengers from one station to another for ten cents, if not for five. The way these natural monopolies under private management foster artificial monopolies can be seen even in small things, as when an employee of a railway unlawfully drives newsboys from the sidewalk in front of the railway station, in order that the news agent in the station may be secure in his monopoly.

A fourth result is seen in the dependence of the rest of the community upon those who furnish services or commodities of the kind which fall under the designation, "natural monopoly." As these services and commodities are indispensable, those who furnish them can too often dictate their own terms. Residents of cities frequently have to pay street-car companies to make extensions which would be profitable to the street-car companies, without any bonus. The people of the United States were dependent upon railway managers for cheap fares to the World's Fair at Chicago, which cost so many millions of dollars. In so far as the railway managers thought low fares meant increased net earnings, they were reluctantly granted ; not otherwise, no, not even as a matter of grace. The people have built many of these railways in subsidies and land grants, but they had not on that account any effective rights with respect to rates. Their relation is one of dependence, and the railways exercise such paternalism as they see fit, the people having abandoned the principle of self-help in railway management. Farmers are dependent on railways to enable them to market their own products and, on the other hand, to bring them their supplies. Workingmen by the hundred thousand are dependent upon these monopolies for wages.

A change of policy with respect to businesses of the kind mentioned is advocated. It is laid down as a general principle that non-competitive businesses should be owned and managed by the government, either national, State, or local, and that competitive businesses are the domain of private industry. As it is not a question, with respect to the business mentioned, whether we will have competition or not, but only a question whether we shall have private or public monopoly, public monopoly is preferred to

irresponsible private monopoly. The history of the world teaches us that private monopoly is a menace to the public. Men are not good enough to be intrusted with such a despotism as that which monopoly confers.

One of the principal aims in industrial reform must be the elimination of unearned incomes, or rather their reduction to a minimum and a nearer approximation than at present to equality in opportunities. This general aim is in harmony with the clearly expressed views of the founders of this republic, and any effort to carry it out is pre-eminently American, while opposition to the aim is essentially un-American. In the time of our forefathers privileges were largely political. Now the most serious special privileges are economic in nature, but in so far as they discerned special economic privileges, the founders of the republic endeavored to overthrow them.

The change in policy advocated with respect to natural monopolies would go a long way towards the abolition of special economic privileges. The receipt of unearned income is a general expression which covers nearly, if not quite, all peculiar economic privileges, for economic privilege means the opportunity to gain excessive returns. Another term for unearned income is economic surplus, and it is found everywhere in modern society and is the source of a large proportion of all vast fortunes. A recent careful investigation traces over three-fourths of the great fortunes of the country to monopolies of one sort or another. Perhaps two illustrations may make clearer what is meant by "unearned income." Suppose I buy a lot in a city and, without putting any labor upon it, sell it at the expiration of a period for twice what it cost me. The difference between what I paid and what I receive is unearned income, or economic surplus—something over and above the returns to labor and capital. Another illustration is afforded by a street-car company with which the writer is familiar. The dividends are about 17 per cent. on capital actually invested, while bonds of the street-car company, bearing five per cent. interest, sell at about 110. This would seem to show that five per cent. is the normal return for capital invested in street railways in the city where this street-car company is located; but even if we would admit that six per cent. is a normal return on the stock, we still have an excess of eleven per cent. Now, this eleven per cent. is not returned to

labor, for wages and salaries have already been paid ; and it is not return to capital, for abundant capital can be found which would be content with six per cent. It is then an economic surplus—something over and above returns to labor and capital. Those industrial classes which receive this surplus are privileged classes: they are favored above others.

When it is said that there is such a thing as unearned income, it is meant individually unearned ; that is, unearned by him who receives it. Of course, no one enjoys any income for which some one does not toil, and the individually unearned income is socially earned.

A further aim which, it is claimed, the reform advocated would promote is the elevation and purification of public life. The greater proportion of corruption in public life is connected directly or indirectly with natural monopolies. It is absolutely necessary that some control should be exercised over these, but those in charge of these monopolies attempt to escape this control. Sometimes they are unjustly attacked by legislatures, and they use bribery and corruption to defend themselves against injustice ; and sometimes they use bribery and corruption to ward off legitimate regulation. Aggression sometimes proceeds from the one source, and sometimes proceeds from the other, but the result is that we have become involved in a vicious circle of corruption proceeding from monopolistic undertakings.

Government ownership and administration of these businesses would tend to the simplification, and therefore to the improvement, of government. Private ownership necessitates endless legislation ; and if all laws on our statute-books which have been placed there by such ownership should be removed, the lawbooks of the country would begin to look comparatively lean. How brief and simple is the legislation concerned with our post-office compared with that which deals with railways, for example ! Then how largely is litigation connected with private ownership ! Remove all litigation peculiar to private ownership and management of monopolies, and the courts would not be so far behind in their cases. Another misfortune is that so large a proportion of the talent of the country is absorbed by private enterprises. Public life does not offer corresponding inducements to capacity.

These are general grounds for the change from private to public ownership, and the workingman is affected, inasmuch as

he belongs to the social body. But we must consider the subject in its more immediate relations to the workingman. It is important to show that this is a reform to which he should direct his attention, rather than to many others which now absorb an undue proportion of his energies.

We are speaking of the wage-earner—the receiver of wages. The monopolist is not likely to be a good employer of labor. His power is so great, and that of a single wage-earner so small in comparison, that the former is exposed to the danger of becoming an arbitrary and arrogant employer. Even when the employees of monopolists unite in labor organizations, their power is not great enough so that they can enter upon labor contracts upon an equal footing with their employers. The outcome of recent railway strikes in the United States demonstrates this sufficiently.

It has been held by some that it should be made a penal offense for those who are employed by railway corporations and other corporations of the kind with which we are dealing, to strike, because the interests of the general public are involved. There can be no question that the general public is concerned, for the services rendered by undertakings of the class called “natural monopolies” are necessities in the modern business world. But, if these wage-earners—the most important and numerous group of wage-earners in the country—cannot resist oppression and injustice in the only way in which resistance is effective, namely, by strong combination and united action, then they are virtually reduced to slavery. The only way out of the dilemma is government ownership. If government is the employer, then the employed have representation in the controlling body ample to protect their interests. It is perfectly legitimate for the people to say: “As we guarantee to you equitable treatment and fair wages, we insist that you shall serve the public faithfully like soldiers. This is only a just return for what you receive.”

It is claimed that the policy advocated would tend to steadiness of industrial development. At present, times of great prosperity are followed by times of stagnation, and during the latter hundreds of thousands and even millions seek labor in vain. Government could make far-reaching plans for the development of those industries which we call natural monopolies,

and execute them regularly. A large industrial field for government as well as for private enterprise gives a certain balance to the whole industrial life which must otherwise be wanting. It is to be noticed, also, that a time which is unfavorable for private industry is often a time most favorable for the public undertakings, because labor is cheap and capital also, as a rule. Moreover, government credit does not break down as does that of the vast private corporations with which we are dealing. Reflect upon the great railway corporations which have recently gone into the hands of receivers in the United States! It is unquestionable that enterprises of the sort which we have been considering have, in their failure, had not a little to do with the present crisis.

We may look at crises and consequent industrial depressions from a different point of view. What does stagnation in business mean but absence of exchange? The wheat-grower in Iowa wants shoes, and the shoemaker in Massachusetts wants wheat, but they are not able to supply each other's demands, and both suffer. Now, cheaper and better transportation would facilitate exchanges and thus tend to promote general and continuous prosperity.

The private monopolist fails conspicuously in protection to life and limb, whereas government in this respect manifests decided superiority. Government is peculiarly sensitive in regard to human life. If a government building collapses and destroys a number of human lives, we are astonished and indignant, and those in any way responsible for the disaster are placed in a most unfortunate position; but we take it as a matter of course that railways should every day in the year destroy human life needlessly. In proportion to the number travelling, there are thirteen times as many accidents in the United States as in Germany, where government ownership of railways obtains, and six or seven times as many accidents to employees in proportion to the total number. And no wonder! The first thing which attracts attention in Germany is the careful protection to life and limb. Accidents of daily occurrence in Chicago are an impossibility in Berlin, a city of equal size. Contrast the efforts of the United States to save life as seen in our truly admirable life-saving service on our coasts with the conduct of those railway presidents who rush to Washington and to our State



capitals to prevent the passage of laws to compel the railways to use well-known and approved safety appliances!

It is claimed that there is greater freedom in the service of government than in the service of the vast corporations which manage natural monopolies. And the freedom of the employed may be still further increased by better civil-service regulations. The nobility of public service is of importance to the wage-earner of every grade. The uniform of government is an honor, while the livery of private service is considered a badge of inferiority. It is public service which has developed the great leaders of our civilization. Private service could never give us a Washington or a Lincoln. Government ownership implies use for general social purposes, and not merely exploitation for dividends.

In determining railway fares under government ownership, the question has to be asked, not merely, What will be the net financial returns? but, What will be the total social effect? Recently, what is called the "zone system" has been introduced in Berlin and vicinity, to encourage a decentralization of population. Without attempting to describe the zone system, it may be said that it implies a reduction of railway fares.\* It was not merely necessary to ask whether the reduction in fares would yield large net returns, but whether the result would be beneficial, because the railways were public property. It has been found desirable in some instances even to sacrifice a pecuniary return for social advantage of a different sort, which far more than counterbalances the sacrifice in money.

In Australia, with a similar view, school children are carried free on the state railways. Under municipal ownership of street-car lines, the weary workingwoman can receive consideration, and the difference between a three-cent and a five-cent fare need not be considered merely in the light of dividends. The price of gas, electric lights, etc., can, under such ownership, be similarly regarded from a broad social standpoint.

If what Macaulay says is true, and "of all inventions, the alphabet and printing-press alone excepted, those inventions which abridge space have done the most for civilization," then we must favor an administration of railways, telegraphs, etc.,

\* Even at the time, it should be remembered, workingmen's trains were running, on which the fare was only two-thirds of a cent a mile.

which aims to place them most fully at the service of the public, making social welfare the chief consideration.

Certain minor reforms would also be accomplished by this socialization of natural monopolies, and one of these is the possibility which it would afford of establishing postal savings banks. The purchase of the railways would involve large issues of government bonds, and these bonds would serve as a basis for postal savings banks. Postal savings banks would in turn furnish an opportunity for the safe investment of money, and would do more than anything to encourage saving on the part of the wage-earner. Experience in England and other countries has shown that no private banks furnish so great an incentive to thrift.

This is a practicable reform. The purchase of the railways would give the property far greater value than the government bonds issued to pay for them, because the consolidation of the railways would at once increase enormously their value. The increase in value would be equal to the saving capitalized, and if we reduce the estimate of \$200,000,000 per annum by one-half, we will still have a capitalized gain of \$2,500,000,000, even if we capitalize the same at four per cent. We have a further saving which results from the superior credit of government, for this superiority would lead to a vast reduction in interest charges whenever the bonds could be refunded.

The mode of accomplishment, of course, is something which requires very careful consideration; but only a few suggestions can be thrown out at present. One of the most important is that a fair, but never an excessive, value should be paid for the property acquired, and a fair value does not mean simply the cost of duplication of a plant. The policy which has been pursued has been favored by the nation as a whole; and the nation as a whole, and not simply a fractional part of it, should bear the loss. It is largely competition which has led to such enormous expenditures in this non-competitive field, and for this attempted competition the public at large is responsible. If it is insisted that a property should be purchased at the cost of duplication, it makes one part of the community bear the loss due to a false social policy; and, moreover, to urge a hard policy with respect to purchase does more than anything else can to defeat the reform. Of course it arouses against it all those who are interested in these enterprises, and they constitute a large and a very influential

proportion of the entire community. Not only do they feel their interests attacked, but they are themselves embittered by a feeling of injustice. If it is needed to raise money to carry out the reform, it is suggested that the fairest way to do this is by means of a well-defined system of inheritance taxes, for such taxes diffuse the burden of the change among the community in proportion to ability to bear it.

The importance of civil-service reform in this connection cannot be too strongly emphasized. The reform itself must necessarily bring with it civil-service reform, but at the same time every improvement in the civil service tends to remove current objections to the change. The wage-earners, so greatly interested in these enterprises, will want for their management the most capable men in the country. Is it rational for the general public to desire inferior service?

It would be interesting, were there space, to treat of the relation between socialization of natural monopolies and other reforms. The relation of land reform and the ownership and exploitation of mines in particular would be interesting. But for lack of space it is necessary to pass over these.

To the anti-socialist it may be said that what is advocated is not socialism, but something far from it. A policy which leaves to private enterprise agriculture, manufactures, and commerce is something quite different from a policy which leaves no field for private industry. To the socialist it can be said: "Let us try this reform first. You want this, and so do we. Here is a point of union." To the wage-earner it can be said: "The change proposed is not one which holds out extravagant hope, but it does give a prospect of gradual and steady improvement and is a preparation for other steps forward. Will you not put aside bitterness and contention and unite in measures which tend gradually to bring about the socialization of natural monopolies? Maintain friendly relations, so far as in you lies, with all men. Cultivate peace, patience, and long-suffering. Make haste slowly and secure each step forward. Attend to your individual duties while working for social measures. Put aside envy and jealousy and be willing to learn even from your enemies. While allowing nothing to turn you aside from your purposes, follow these purposes 'with malice towards none and charity for all.'"

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